

SJ17

RTIC Interim Study

Montana Taxpayers Association

Comments to RTIC

By Nancy Schlepp

June 15, 2011

Additional areas to study:

1. Formula approach for each sector of centrally assessed:

There is definite interest from MonTax Centrally Assessed members to explore the possibility of a formula approach. One of the biggest frustrations to centrally assessed companies is the lack of predictability of assessment values from year to year. This randomness in the process makes it very hard to accurately complete a budgeting process; and makes long range planning difficult. A formula approach would help bring stability to the process.

2. Factor correlation:

There are three approaches or (factors) that go into a central assessment determination of market value as taken from a DOR slide show presentation to local governments:

A. Cost Approach:

- Original or historic cost less depreciation
- Information comes from the balance sheet and other audited records

B. Income Approach:

- Discounting an income stream
- Information comes from income statements and financial markets

C. Market Approach:

- Market value of the equity and debt
- Comparable sales of like property
- Information comes directly from the market

The MT DOR has a lot of discretion when deciding how to weigh these approaches or (factors) as they see fit. This discretion in weighing the factors can create substantial variances from one year to the next. This arbitrary approach without sideboards of some type can be problematic from the standpoint of the centrally assessed companies.

3. Questions to consider when contemplating whether a company is locally or centrally assessed:

- 1) Are the operating assets of the taxpayer fully integrated from a physical, functional and economic perspective?
- 2) Are the operating assets physically, technologically, economically and functionally part of one system?
- 3) Is the value of any one operating asset a function of that asset or a part of a total income-producing system of assets?
- 4) Do the taxpayer's operating assets physically move?